

Scotland's Public Finances: Challenges and Risks

Report by David Gladwin, Chief Financial Officer and S95 Officer

Report for Information

1 Recommendations

Audit Committee is recommended to:

- Consider the Accounts Commission report; and
- Note the Council's position in relation to the key messages.

2 Purpose of Report / Executive Summary

The purpose of this report is to provide Audit Committee with sight of the Accounts Commission Local Government in Scotland Financial Bulletin 2022/23 published in January 2024, which is appended to this report, and opportunity to consider how key messages and recommendations in the report are embedded in ongoing Council work.

The main messages in the report include funding challenges through real terms reductions and ring-fencing, balancing of budgets becoming increasingly reliant on savings, one-off measures and use of reserves, an increase in Council earmarked reserves and an extremely challenging financial outlook.

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Report Contact:

David Gladwin, Chief Financial Officer and S95 Officer

David.Gladwin@midlothian.gov.uk

3 Background

- 3.1** The Bulletin provides a high-level independent analysis of the financial performance of councils during 2022/23. It is part of a series of outputs produced by the Accounts Commission which together provide an independent overview of the Local Government Sector.

Key Messages

- 3.2** Total revenue funding and income for Councils fell by 2.8% in real terms in 2022/23 compared to the previous year and an increasing proportion of Scottish Government funding is formally ring-fenced or provided with the expectation it will be spent on specific services. Over the last decade the proportion of the Scottish Budget allocated to local government has been reduced.
- 3.3** Almost all Councils reported budget gaps in 2022/23 and have been reliant on making recurring savings and utilisation of reserves or other one-off measures to set balanced budgets. Clarity of reporting is key.
- 3.4** Capital Expenditure has increased mainly funded by increased borrowing which in turn adds pressure to revenue budgets.
- 3.5** Council's useable reserves increased in 2022/23. The majority of the increase related to earmarked reserves.
- 3.6** As demand for council services continues to rise, councils have reduced spending on unprotected services to balance budgets. The Verity House Agreement contains a commitment to a default position of no ring-fencing or direction.

Report Recommendations

- 3.7** Table 1 below shows Midlothian Council's position against each of the recommendations in the report.

Table 1: Report Recommendations and Midlothian position

Report Recommendation	Midlothian position
<i>Councils should:</i>	
Prioritise the achievement of recurring savings and avoid reliance on non-recurring savings to enhance longer-term financial sustainability.	<p>The Transformation Blueprint is the initial vehicle to closer align recurring expenditure and income.</p> <p>Updated Medium Term Financial Strategy (MTFS) projections will be presented to Council in June 2024 along blueprint savings options. At this point an assessment can be taken on the need and timing of additional savings measures that may be required.</p>
Ensure that management commentaries are open and transparent, include a clear link between budget outturn and the financial performance in the accounts and report on the achievement of planned	The content and quality of Midlothian's Management Commentary is on a journey of continuous improvement with positive feedback from External Audit.

savings targets.	The Business Transformation Steering Group (BTSG) have asked for a six-monthly financial monitoring report focussing exclusively on delivery of approved savings. The next one will be presented to BTSG in June 2024 thus providing a full year position for 2023/24.
Provide clear statements about reserves policy and explicitly set out the purpose of committed reserves within their annual accounts.	Commentary on reserves is included in each financial monitoring report and in MTFS projections. Reserves policy was approved by Council in 2019 and will be refreshed in 2024.
Ensure effective and timely consultation and engagement with communities on the options that must be considered to achieve a balanced budget.	Community engagement took place for savings proposals presented to Council in advance of setting the 2023/24 budget. Further engagement is a core part considering new proposals.
Strengthen their monitoring and reporting of financial resilience including clearer and more public-facing use of performance against financial resilience indicators and measures. Financial resilience indicators should be a component of Council's medium and long-term financial plans to provide assurance that they are balancing short-term pressures with robust planning for long-term financial sustainability.	Financial indicators are prepared as part of the prudential framework and reported to Audit Committee and Council. The use of resilience indicators in supporting financial management and planning is a developing area and is being considered as part of a refresh of financial strategy.
Work with the Scottish Government to build momentum and accelerate progress in the development of a fiscal framework for local government to enhance the clarity and certainty of budgets for councils in future years.	Engagement with the Scottish Government to consider Midlothian's unique and very challenging position as the fastest growing council in Scotland has taken place and will continue. Discussions on what a Fiscal Framework would look like and how it would work continue in national forums with CoSLA, SoLACE and Local Authority S95 Officers represented.

4 Report Implications (Resource, Digital and Risk)

4.1 Resource

None

4.2 Digital

None

4.3 Risk

None

4.4 Ensuring Equalities (if required a separate IIA must be completed)

None

4.4 Additional Report Implications (See Appendix A)

See Appendix A

Appendices

Appendix A – Additional Report Implications

Appendix B – Local Government in Scotland. Financial Bulletin 2022/23

APPENDIX A – Report Implications

A.1 Key Priorities within the Single Midlothian Plan

Not applicable

A.2 Key Drivers for Change

Key drivers addressed in this report:

- ☐ Holistic Working
- ☐ Hub and Spoke
- ☐ Modern
- ☐ Sustainable
- ☐ Transformational
- ☐ Preventative
- ☐ Asset-based
- ☐ Continuous Improvement
- ☐ One size fits one
- ☒ None of the above

A.3 Key Delivery Streams

Key delivery streams addressed in this report:

- ☐ One Council Working with you, for you
- ☐ Preventative and Sustainable
- ☐ Efficient and Modern
- ☐ Innovative and Ambitious
- ☒ None of the above

A.4 Delivering Best Value

Not applicable

A.5 Involving Communities and Other Stakeholders

Not applicable

A.6 Impact on Performance and Outcomes

Not applicable

A.7 Adopting a Preventative Approach

Not applicable

A.8 Supporting Sustainable Development

Not applicable

APPENDIX B**Local Government in Scotland. Financial Bulletin 2022/23**